

DS Draft - Ammings spec
Due 001 - Sat. 18 Jan
1958

1. The 1950's will appear in historical perspective as the decade in which the Soviet Union emerged as a clearly-recognized world power. The first success in its competitive struggle with capitalist countries came early in the decade with acceptance as a major military power. The second success came in the mid-50's with a full appreciation of the achievements of Soviet science, technology, and education.

2. The principal arena of contest between the East and West blocs is an economic one. The USSR has clearly-stated ambitions to become a first-class commercial power. It has already scored prominent, if limited, successes in its economic relations with the underdeveloped countries. At the same time the important Russian trade with Western Europe has been steadily expanding.

3. All of this is not to suggest that the Soviet Union will emerge as a winner perched atop of a heap of trade statistics, but rather that it will become a progressively more important force in world commodity markets.

4. In pursuing this course, the Soviet Union possesses a number of more-or-less obvious advantages.

(a) It has the institutional framework for making political and economic decisions quickly; and therefore is able to seize upon opportunities in short order;

(b) It has little accumulation of past commitments, thus making for a fresh approach and permitting a popular anti-colonial posture;

(c) It has recent experience in rapid bootstrap-industrialisation and can make experts trained in this approach available as consultants to underdeveloped countries;

(d) It has, in a number of instances, standardized on bare-bones machinery models, and consequently is able to offer at very favorable prices, items more in line with the technical operating abilities of workers in underdeveloped countries;

(e) It has a wholly adequate supply of indentured engineers and technicians available to send into underdeveloped countries to work on projects which it sponsors; there are no recruitment problems.

5. Over the long pull, however, the USSR has certain disadvantages which must be overcome if it is to pose a full-bodied threat to the present commercial superiority of the principal capitalist countries.

(a) Reliance on bilateral trade arrangements restricts the range and total volume of transactions. This, ^{reliance results} for the most part, from the inconvertibility of the ruble. Convertibility is a sine qua non for realization of any long

- range ambition for recognition as a prime commercial power;
- (b) Limited diversification in many lines of production restricts the range of capital goods available for export;
- (c) Depreciation rate for capital goods is often more rapid than for U.S. counterparts (especially for motor vehicles). The special periodic type of maintenance furnished in the USSR is usually not available for units representing the first sales in any country abroad.
- (d) Their administered internal price system and isolated domestic market frequently make for a lack of realistic prices on external construction contracts and those requiring highly specialized capital equipment, especially where there is little or no competitive bidding to serve as an anchor for Soviet bid-prices;
- (e) Heavy Soviet commitments to Communist China and European Satellites place a limit on the amount of equipment available for immediate export to underdeveloped countries.
- (f) There have been reports (though the number is not especially large) indicating at least some consumer dissatisfaction with Soviet Bloc goods, prices, and commercial practices.

Example 1

Indonesia: Military official complained that Soviet jeeps

were not suited for operations in tropical environment and tend to break down. All windshields have had to be replaced because the heat caused the glass to become "wavy." Spare parts are also a problem. (22 Dec 57)

Example 2

Egypt: A high-level Egyptian official complained that the Bloc no longer provided machinery on favorable terms. In some instances, he says, prices have been raised 200% and delivery dates extended to 36-40 months. (27 Apr 57)

Example 3

25X1X6

Syria: [REDACTED] reported that Czechoslovakia was offering Syrian cotton to France at world market prices. (22 Apr 57)

6. Except for the last, the disadvantages mentioned are more in the nature of long-run limitations on possible Soviet emergence as a first-class commercial power, although all of these can be overcome by concerted effort if the Russians so desire. The long-term inhibitions, however, will not severely restrict Soviet performance on present commitments nor even to a several-fold increase in present level of trade and foreign aid. That the USSR has directed their campaign of economic competition with the principal capitalist countries along fruitful lines may be seen by comparing the foreign aid levels of the chief competitors.

7. In global terms, the US has been extending aid on a considerably larger scale than the Bloc. Since the first Soviet credit was extended

about 2½ years ago, the Communist orbit has extended credits and grants to underdeveloped countries amounting to about \$1.9 billion. In this same period US Governmental assistance alone was about \$8 billion. Other Western countries also contributed substantially to the economic needs of the underdeveloped countries. It is estimated that in the 2½ year span which we are concerned with, assistance from other Western countries amounted to approximately \$2 billion, excluding military credits. Moreover, foreign private investments and IBRD plus IMF loans in the underdeveloped countries are estimated to have been at least \$2.0 billion during this period. Thus in the 2½ years since the Soviets began in earnest their economic aid program no less than \$12 billion in assistance has been extended by Western countries, compared to less than \$2 billion from the entire Sino-Soviet Bloc.

8. Although a comparison between Western and Bloc aid may appear one-sided when considered in world-wide terms, such a comparison is far from unbalanced when it is made with respect to the relatively few countries where the Bloc has largely concentrated its aid. It has done so for a variety of reasons, the most compelling of which is that these countries--all neutrals--have been the most vulnerable. Nearly all of the countries that have accepted substantial sums of aid from the Bloc have also been receiving aid from the US or other Western countries. Hence a comparison may be made of Western and Bloc aid programs in the areas of the Free World where the Soviets are actively competing with the West for influence over entire nations.

9. About \$1.8 billion of the \$1.9 billion in Bloc credits and grants has gone to 9 countries. The US has provided assistance during the last 2½ years to all of the countries except Syria. However, US aid of all types to these same 9 countries amounted to only about \$900 million. Even if we add to this figure the estimated contributions of other Western countries, the IBRD and IMF loans and estimated private investments, we cannot estimate Western assistance for this period higher than \$1.2 billion. Let me put it in this way: in those countries which have already accepted Bloc assistance, the Communist countries have put up at least one-half again as much as all the Western nations combined.

10. Moreover, the Bloc shows up well on a country by country comparison. In five of the nine countries that have considered it expedient and politic to accept Bloc aid, the Communist orbit has made greater contributions than the West. The Bloc lead in Ceylon is not great, but it may well increase soon, for a negotiating team is now in Colombo following up a promise of assistance made by Khrushchev about 3 months ago. In Afghanistan, Yugoslavia, Syria and Egypt, the Bloc aid program is several times as large as that of all of the West combined. The Soviet loans to Afghanistan and Syria, are so large, in fact, that it is doubtful that the entire amount can be taken up in the time allotted. Thus further loan assistance to these two countries from non-Bloc sources may be precluded. And although the Egyptian economy could probably absorb additional non-Bloc credit assistance, the USSR is

attempting to forestall that possibility by holding out a promise of additional credits for the Aswan Dam.

11. In the remaining four countries that have accepted substantial Bloc aid, the comparison between Western and Bloc assistance is more balanced. The US has clearly contributed more to India's economic development than has the Bloc. In addition, Commonwealth countries have been providing India with assistance of some magnitude. Nevertheless, even in India where the comparison is most favorable for the West, the Bloc has made a respectable showing. In certain other countries, namely Indonesia, Cambodia, and Burma, the West has extended more aid than has the Bloc. In each of these cases, however, extenuating circumstances make it necessary to qualify the implication that the Bloc is lagging behind the West. Since the first of the year Indonesia has been offered a modest credit by Communist China and is now negotiating for arms from the European Bloc. In Cambodia the West is competing with primitive, undeveloped Communist China, not with the USSR. Finally, the difference between Western and Bloc assistance to Burma is slight and may vanish altogether if, as has been hinted, Czechoslovakia agrees to sell arms to Burma.

12. In conclusion then, the Bloc aid program in the Free World on a world wide basis is substantially smaller than that of the West. However, there are many underdeveloped countries which receive relatively little assistance from the West, either because they refuse to accept the conditions

under which large scale Western help would be forthcoming or because greater Western aid has not been made available. Several of these underdeveloped countries have already accepted substantial Bloc credits or grants. Where this has occurred the Bloc program is larger or shows definite signs of soon becoming larger than our own, the sole clear exception being India. Other underdeveloped countries that have not been offered such Western assistance or have refused economic assistance that is tied to joining a Western military alliance, have been the object of Soviet approaches. We must assume that there is a good chance that some of these offers will be accepted. Consequently, the next time that I speak to you on this subject, the list of countries in which the Bloc is leading the West may be somewhat larger than the present one.